



CONSULTING ASSISTANCE ON ECONOMIC REFORM II

DISCUSSION PAPERS

The objectives of the Consulting Assistance on Economic Reform (CAER II) project are to contribute to broad-based and sustainable economic growth; and to improve the policy reform content of USAID assistance activities that aim to strengthen markets in recipient countries. Services are provided by the Harvard Institute for International Development (HIID) and its subcontractors. Funded by the U.S. Agency for International Development (Contracts PCE-0405-C-00-5015-00 and PCE-0405-Q-00-5016-00), it gives A.I.D.'s missions and Washington offices access to economists and other social scientists with extensive practical experience who are highly regarded within their professional disciplines. Some of the CAER work generates results of interest to a broad audience. The CAER discussion papers series provides a convenient and consistent form in which to share these results.

Foreign Investment and the Angolan Macroeconomy: Current Situation and Future Prospects

**Steven Kyle
Ronald Bobel**



CAER II Discussion Paper No. 13
December 1997

The views and interpretations in these papers are those of the authors and should not be attributed to the Agency for International Development, the Harvard Institute for International Development, or CAER II subcontractors.

For information contact:

CAER Project Manager
Harvard Institute for International Development
One Eliot Street
Cambridge, MA 02138, USA
Tel: (617) 495-9776; Fax: (617) 495-0527

**Foreign Investment and the Angolan Macroeconomy:
Current Situation and Future Prospects**

April 1997

Part I

The Angolan Macroeconomy

I. Introduction

Angola achieved independence in 1975 after more than four hundred years of Portuguese rule. Independence was followed almost immediately by civil war, which reached unprecedented levels of death and destruction following UN sponsored elections in 1992. Angola's economy remains severely affected by the long war and the destruction resulting from it. However, it has begun the process of reactivation of production now that hostilities have ceased and transport and communication routes have been reopened in many areas. While any economic data must be treated with caution, it is clear that there has been some improvement since the signing of the Lusaka Accord.

Though the situation is not as grave as it was during and immediately after the renewed hostilities of 1992-1994, the economy remains far below levels achieved prior to independence with the exception of the oil sector, which has provided a huge foreign exchange windfall to the government amounting to about \$2 billion/year. Periodic bouts of hyperinflation have contributed to the retreat of many from the money economy, particularly in rural areas, where many peasants have reverted to subsistence production and barter, and many others are newly resettled on lands they fled during the worst of the conflict.

The massive inflow of oil receipts (amounting to more than half of GDP) has caused distortions typical of oil exporting economies, and commonly known as "Dutch Disease". This refers to the problem of exchange rate overvaluation and relative price distortions that result in strong urban bias and stagnation of non-oil exports and import competing sectors. Diamonds constitute an additional factor exacerbating the already strong effects from oil. The activities most

adversely affected are agriculture, and light manufacturing and agro-processing sectors which have been virtually 100% replaced by imports in the large urban markets on the coast. Prior to independence Angola was the world's fourth largest coffee exporter and also exported more than 400,000 MT of maize a year. Exports of both of these crops are now near zero.

The enclave nature of oil production is especially pronounced in Angola, where oil literally never touches the territory of Angola apart from the Province of Cabinda which is separated from the bulk of the country by Zaire. Offshore production is increasing with additional exploration continuing in order to expand output substantially over the next few years. Virtually all inputs used in production are imported by the concessionaires, including the majority of oil company workers.

The production enclave is matched by a consumption enclave in that oil receipts are used primarily to service foreign debt and to support the government budget which is expended mainly on defense, debt service and maintenance of the central government apparatus in Luanda. The resulting boom in spending has resulted in a highly inflationary economy in Luanda in which many of the traditional links to productive areas in the interior have been broken. In effect, Angola has two economies, one reliant on imports at the official exchange rate financed by oil receipts, while the bulk of the population lives in an economy operating at parallel market prices, divorced from the official economy. In spite of the fact that most of the windfall has been spent on imports, and so has not directly affected the real exchange rate, enough of the additional demand has fallen on non-traded sectors to create a chronic problem of overvaluation, which has proven particularly hard to deal with given the difficulties in reestablishing domestic productive capacity.

Government expenditures have exceeded oil receipts, due both to large military expenditures necessitated by the war, and the need to make payments on the external debt, which stood at approximately \$11 billion by the end of 1996. At present, oil production is almost entirely devoted to debt service, though there are new fields scheduled to enter into production in the near future. This will avoid a crisis in the near term by allowing financing gaps to be covered, but will merely postpone the inevitable adjustment to a later date at which time the gaps will be larger, the

imbalances more severe, and the debt larger.

The government enunciated a reform program in July 1995 designed to stabilize prices and achieve external balance, recognizing that the severe imbalances and distortions afflicting the economy were serious impediments to development and growth. In support of this program, the Government entered into discussions with the IMF in order to start the process leading eventually to a Fund approved ESAF together with structural adjustment lending by the World Bank. Unfortunately, it has proven more difficult than anticipated to adhere to the targets set by the Government in the Round Table document, and subsequent discussions with the Fund have proved unsuccessful.

The failure of the stabilization program initiated last year, and the ensuing reemergence of the inflationary spiral of the preceding period underscored the need for a serious stabilization program. The program that was implemented (see below) has succeeded in containing inflation and stabilizing the exchange rate to some degree, but is facing increasing pressures.

It is clear that the primary cause of the instability is the continuing deficit of the central government. The absence of unified budgeting and accounting procedures make it difficult to accurately assess the true size of the fiscal deficit, but it was approximately 24% of GDP in 1995, and continued to remain highly in deficit last year.

II. The Current Situation

At the present time, Angola is in an unsustainable macroeconomic situation. After abandoning the liberalization program last June, the government retreated to what for Angola is by now the traditional situation of increased government control. However, this control has not, for the most part, been extended to prices themselves but has been based on stopgap measures designed to repress inflation in the short run.

Faced with inflation approaching annual rates of 10,000% in June of last year, largely due to uncontrolled government expenditures financed by money creation, the government took various measures to control the situation. Among these were:

- Slowdown and then cessation of disbursements by the government, including payments to civil servants, including government functionaries, police and others, resulting in a huge decrease in money creation to fund these expenses. While this measure by itself succeeded in controlling inflation, it is obviously not sustainable since workers will eventually have to be paid, or they will stop working.
- Reimposition of import licensing requirements.
- Imposition of controls on wholesale and retail margins
- Reimposition of prior licensing requirements for purchase of large sums of foreign exchange. While there is no set rule for what amounts require prior permission, it is possible for individuals to obtain amounts sufficient to pay for short trips abroad but attempts to purchase amounts as \$100,000 or more take a minimum of several weeks to be approved, if in fact the applications are not rejected. This policy has had the effect of strangling businesses which rely on imported inputs or which depend on ease of currency conversion.

Overall, this has resulted in a halt to the money supply growth that had been fueled through the government budget deficit and an increase in the local supply of dollars as the ability to use them to buy imports has been curtailed and as the government has sold large quantities of dollars into the domestic market as necessary to stabilize the exchange rate. The policies have been successful in achieving two goals: open inflation has been checked, having been converted into repressed inflation instead; the parallel and official exchange rates were unified for several months through de facto licensing of foreign exchange purchases together with an artificial decrease in the government budget (and hence in the money creation used to fund it) via the expedient of not paying workers for

a period which by now has reached 3 months. One sign of renewed inflationary pressures is the widening of the gap between the official and parallel exchange rates, now at approximately 30%.

The government has made the basis of its new policy explicit in its Programa de Politica Economica e Social do Governo Para 1997 which contains an equation on which government monetary and financial management is based. The "fundamental equation" balances money flows into and out of the economy:

$$\begin{aligned} &\text{Wages Paid by Govt.} + \text{Government Purchases} + \text{New Domestic Credit} \\ &= \text{Sales of foreign exchange to the economy} + \text{Non oil tax receipts} + \text{Credit repayments} \end{aligned}$$

Basically, the left hand side of this equation is intended to capture injections of Kwanzas into the system while the right hand side is intended to capture leakages. In fact, according to some statements made by the Minister of Planning, the government tries to limit new domestic credit to repayments of domestic credit, government purchases to non-oil tax receipts, and the government wage bill to sales of foreign exchange. There are many unanswered questions raised by this equation, but it is clear that the intention of the government is to strictly limit the emission of new money.

The Finance Minister has made it very clear that the basic problem is that the government must live within its means if the economy is to be stabilized. In this, he is absolutely correct but the overall policy package includes measures which impose significant restrictions on the private sector as well as the government. In terms of government restraint, it is apparent that the de facto control mechanism for the government is achieved via central bank refusal to honor government expenditure orders (Ordens de Saque) which exceed their targets. Obviously, this involves some prioritization, since some purchases are allowed but others are not, and it seems that this setting of priorities is achieved within the central bank. The normal budgetary procedures, which use the Ministry of Finance are thus rendered entirely irrelevant.

There is an additional problem beyond that of prioritization of budgetary expenditures - that of expenditures which are not in the budget at all. While these off-budget items have never been accounted for, they can be explained by the widespread corruption afflicting the government. It is, of course, impossible to tell if these "expenditures" have been reduced or not, but it is clear that stabilization will be difficult, if not impossible, to achieve if they are not reined in. Essentially, the government was previously in a position where legitimate expenditures plus leakage due to corruption amounted to a total that was not supportable without recourse to money creation. The total has now been contained thanks to the measures described above, but the failure to contain corruption means that legitimate budget items have been relegated to the status of residual expenditures, and consequently the government has become paralyzed.

Apart from the size of the deficit and the prioritization of expenditures (whether legitimate or not) the present policy package also contains a series of control measures which do not directly address the issue of the government budget. These policies, among them import controls, exchange controls, and price and margin controls, do have a visible effect under the present conditions, and that is why the government feels justified in continuing them. However, none of them would be necessary if the root cause of the problem, money financed deficits, were eliminated. In addition, the controls have an extremely adverse effect on the private sector, which not only has seen its activities related to government purchases dry up, but can't buy inputs from abroad, can't sell at margins to which they have become accustomed, can't easily repatriate profits, and are trying to sell to a population whose purchasing power is dropping rapidly due to non-payment of government salaries for the past three months.

It is clear that this situation cannot continue indefinitely. The likely outcome in the absence of reform efforts is an eventual resurgence of inflation and reopening of the parallel market premium for foreign exchange. Currently, growth is once again at a standstill, while foreign debt continues to grow and the line ministries continue to resist any serious attempts to control expenditures.

In summary, the fact that the government has taken serious steps to control deficits and their

monetization is a very good sign. However, the failure to prioritize expenditures (among them "expenditures" on corruption) has resulted in an inability to pay for even some of the most essential government activities. In addition, the control measures, which would be unnecessary in a stable macroeconomic context, are very damaging to private sector growth. This depression of activity on the part of the private sector exacerbates the situation still further.

A. Growth

As can be seen in Tables 1 and 2, Angola has in the past two years begun to recover from the years of stagnation and negative growth that preceded it. With a GDP of almost \$6 billion and a population of approximately 10 million, Angola ranks as low income country, though well above the lowest levels in Africa. Nevertheless, the heavy oil dependence and the maldistribution of these receipts mask a far lower level of income for the majority of the population, most of whom depend on agriculture for income. While agriculture has recovered to some extent as peasants have returned to the countryside and some degree of freedom of movement has been achieved, the country has yet to achieve any substantial sustained growth in non-oil manufacturing sectors. While the widespread civil conflict is clearly responsible for the declines registered after the renewal of hostilities after the 1992 elections, there have been many difficulties in achieving growth since peace except in the oil and diamond sectors and one shot growth spurts as farmers are resettled on land. The two most important minerals account for more than half of GDP, a level of oil dependency far in excess of that of any other oil exporting country outside of the Persian Gulf. Projections of oil production show that more growth can be expected in these areas, though the picture for the non-oil economy is less clear. While the war related destruction caused by the war is certainly an impediment, it is also true that government policy has not been conducive to a widespread resurgence of the domestic economy.

B. Inflation and Finance

Table 3 shows figures for inflation from 1993 through the end of 1996. These figures show the hyperinflationary process at work in Angola over the past few years. With monthly rates often in excess of 50%, Angola's inflation has a pronounced cyclical pattern corresponding to the periodic attempts at reform and subsequent abandonment of these programs. Most recently, inflation reached an annual rate of more than 10,000% by June of 1990, causing the government to reshuffle its economic team and reimpose controls on the economy.

With monthly rates back down to levels around 5% or lower in the second half of 1996 it is clear that the government was successful in controlling inflation. The principal root cause of the inflation was the inability of the government to control spending and the subsequent financing of this deficit via money emission and, as noted above, this has been achieved through strict controls at the central bank. With the economy now showing distinct signs of recession due to the lack of money and the inability to import needed inputs, the government is rapidly facing a situation in which it must choose between a deeper recession or a reformulation of the reform program. The danger of a resurgence of inflation is a real possibility given the strong pressures to resume payments by the government to workers, suppliers, etc.

C. The Exchange Rate

Table 4 shows the evolution of the exchange rate over the period since the beginning of 1996. The high rates of inflation at the beginning of the period are reflected in the high rates of devaluation in the parallel market. The spread of the parallel over the official rate reached extremely high levels at the beginning of 1996, and remained substantial even after the government resumed adjustments of the official rate in February. With the implementation of the new controls in July, both inflation and the parallel market spread were brought down to single digit levels. However, it is clear that there have been renewed inflationary tendencies since the end of 1996, reflected in the de facto reemergence of dual exchange markets with about a 30% premium in the parallel rate.

The government has made explicit its intention to use the exchange rate as an "anchor" to

combat inflationary expectations. Throughout the second half of 1996 it met incipient rises in the parallel rate with large sales of dollars while continuing to restrict money emission (which, in the absence of tax receipts, means simply not making government expenditures which would have to be honored by the Central Bank). However, some payments and credits to parastatal organizations have resulted in a failure to adhere to the stated monetary targets at the end of the period. The government has stated its intention to redouble its efforts to maintain its program of control over the coming months.

D. The Government Budget

On the revenue side, the Angolan government is financed mainly through oil receipts, which accounted for 90% of total revenue in the past two years. This dependence on oil seems likely to continue given the lack of development of alternative sources and the opening of new oil wells scheduled for the immediate future. See Table 5 for a summary of public finance over the past decade. Table 6 summarizes the sources of oil revenue during the past year. Based on an average daily production of 627,700 barrels, government revenue from oil amounted to more than 2 billion dollars last year.

On the expenditure side, the figures make clear first of all that the government is still dominant in the domestic economy, accounting for a large share of total expenditures in recent years. There is also an imbalance between capital and current expenditures, with the former suffering at the expense of the latter. In other words, investment expenditures have been minimal. It is also clear that wages paid to the government bureaucracy are not the source of budgetary difficulties, amounting to little more than 12% of total expenditures. This means that curtailing the size of the government labor force cannot by itself provide a solution to problems of fiscal balance (though the bureaucracy is in fact bloated). Table 7 shows the shrinkage of the government wage bill over the past four years together with its value at both the official and parallel exchange rates.

The government continues to spend large sums on subsidies (\$400 million in 1995) most of these for oil products, water and electricity. These subsidies benefit mainly the upper income classes as they are the only ones with access to cars, municipal water and electricity. The poor typically purchase their water, often at prices higher than those charged for gasoline. The government has also continued to spend large sums on the military, something which should be possible to decrease with the coming of peace and the successful seating of the Government of National Unity. Nevertheless, demobilization will also take a substantial amount of money, limiting the size of the peace dividend which can be expected.

The overall balance of the government budget is one of a large deficit which is getting bigger, amounting to almost 24% of GDP in 1995. This is the main source of inflationary pressures in the economy given the use of money creation through the domestic banking system to finance the gap.

E. Trade, the Balance of Payments and External Debt

Table 8 shows trade figures for Angola in recent years, and makes clear the heavy dependence on oil. Also apparent is the declining importance of coffee, which before independence in 1975 made Angola one of the top four exporters in the world. In terms of imports, food and other consumer goods have grown to a dominant position, squeezing out imports of intermediate and capital goods which previously were the dominant import items. Overall, the merchandise trade balance shows a large surplus due to the large exports of oil.

In spite of this large positive merchandise trade balance, it can be seen in Table 9 that the balance on current account has been negative in every year since 1987. This is largely due to the large payments to oil companies and for interest on the foreign debt. Indeed, interest on the foreign debt more than accounted for the deficit in the current account in the most recent year for which data are available. This deficit amounted to almost 9% of GDP in that year, down from more than 18% in the previous year.

Table 10 shows the outstanding external debt, which amounted to \$11.5 billion at the end of 1995. The majority of this is public or publicly guaranteed while on the creditor side, multilateral credits are about equal to bilateral creditors, while private credits are important. The absence of any accord with the IMF is also apparent. Debt service ratios have been high, amounting to about half of the value of exports in recent years. Current debt stocks total approximately double the value of GDP.

III. Liberalization and Reform

A. The History of Control and Government Domination

Upon independence, Angola suffered from an extreme lack of skilled labor, particularly citizens with experience in administration and policy making. This problem was far more extreme in ex-Portuguese colonies than in others, due to the virtually complete domination of all formal sector jobs by Portuguese, even down to the level of street vendors and taxi drivers. At independence, the sudden departure of nearly all of these colonists left the country, leaving it in a state of near paralysis.

At the time, the government felt it had little choice but to take over the abandoned farms, factories, etc. in order to prevent their complete decay and ruin. Given the MPLA's reliance on the former Soviet bloc for support and advice, the strong tendency toward a command and control style of management is understandable. Indeed, given the previous lack of any managerial experience due to the Portuguese domination of the economy, the only experience most Angolans have with government administration and management is that gained under the tutelage of the Russians and their allies. This was reinforced both by the education of many Angolans in communist countries

and by the presence of Cuban troops and advisers for more than a decade after independence. (The Cubans were originally asked to assist in repelling an invasion by the South African army.)

Accordingly, the effort to liberalize has been slow, given the inability of many government functionaries to visualize or understand how a market economy operates and what the relative roles of the state and private sectors are in such a system. The problem has been exacerbated by the rampant large scale corruption that has accompanied the exploitation of Angola's large oil reserves. Government control of these receipts together with the rents available from exploitation of the distortions resulting from economic controls have sustained a high standard of living for those fortunate enough to have access.

Over the past three years, there have been annual attempts at liberalization, which have ended with a resurgence of inflation and reimposition of controls. There is at the present time a feeling in many quarters that the failure of liberalization is evidence that such programs are inappropriate for Angolan conditions. In reality, liberalization together with monetization of fiscal deficits the size of Angola's are a clear recipe for hyperinflation, and while reimposition of controls can convert open inflation into repressed inflation, the real need for control lies in the area of the government budget, where it is essential that expenditures be confined to levels that can be financed without recourse to money creation.

B. Pricing and Distribution

Under the command and control regime of the mid 1970's until the late 1980's pricing and distribution were done on a Soviet model, with fixed prices serving merely as accounting devices for the planned distribution of goods and service. While prices have been gradual decontrolled for most items, there has been substantial resistance to decontrol of wholesale and retail margins. While these controls were lifted on some items over the various liberalization attempts, they have now been reimposed universally since last July.

There is a strong perception in the government that speculators are the cause of inflation and depreciation of the exchange rate. While this logic is not supportable economically, it seems clear that the only real solution to rampant speculation is to achieve macroeconomic stability, since the ability of speculators and others to operate outside of controls in the black market is unlikely to be significantly affected by government efforts at repression.

Complementing controls on prices and margins are a myriad of licensing requirements for many different economic activities. At present, any form of international trade requires prior approval. Any agent engaging in trade of any kind must first obtain a license, a lengthy project usually subject to additional costs due to the need for payments to the officials involved.

IV. Political Economy of Reform

A. The Lusaka Accords and the National Unity Government

The Lusaka Accords were rightly hailed by all observers as a plan for peace and national reconciliation with a real potential for success. Indeed, since their adoption there has been a continuous period of relative peace, and the process of demobilization has proceeded (though slower than planned) to the point where open hostilities have been absent for almost two years and there has been real progress in resettling displaced populations and restoring freedom of movement in the countryside. While the progress on these fronts may well not be all that was hoped for, the fact that there has been and continues to be progress toward peace is a very important change from the recent past.

However, it has still not proved possible to seat the proposed National Unity Government; successfully accomplishing this will be a prerequisite creating an economic and political context

conducive to foreign investment.

B. Rents, Elites and the Incentive to Reform

It is perhaps a truism that in order for reform to be pursued, it must be perceived to be in the best interests of those who must make the decision to do it. In the case of Angola there are particularly high obstacles to achieving this perception, stemming from the current structure of oil-derived foreign exchange inflows and the distortions they induce.

First and foremost is the fact that the oil rents are controlled by the central government and allocated as dictated by those in charge of it. What this has meant in the past is that the political elite of the MPLA has been insulated from the economic problems afflicting the rest of the population due to their ability to control foreign exchange receipts and purchase needed consumption items from abroad. While most of the population has been suffering from the collapse of domestic production and rampant hyperinflation, those in a position of privilege have had preferential access to foreign markets in order to avoid these problems, creating an artificial economy in Luanda which is almost entirely divorced from the rest of the country.

Not only has foreign exchange been allocated on a formulaic, preferential basis, but there has also been a huge problem of preferential exchange rates as well. Government purchases have been made in many instances at an official exchange rate which has been extremely overvalued, providing those with access the opportunity for quick profits on an enormous scale by purchasing goods at official exchange rates and reselling them at parallel market prices. Even now, with the parallel market premium lower than it was, control is instead exerted through import licensing.

What this means is that those currently benefitting from the present situation will not be better off in the short run after implementation of a reform program which eliminates these preferences and distortions. It is simply not accurate, and certainly not persuasive, to attempt to

make the case for reform on the basis of a supposed improvement in the situation for the political elite because it will not happen. Rather, a case for reform must rest on the fact that the problems afflicting the Angolan economy are well known, and the trajectory of the economy, and that of the elites who benefit from the current situation will inevitably result in a less favorable situation in the long run if reforms are avoided in the short run. In addition, there are real questions as to whether political and social stability can be maintained if the situation for the general public continues to deteriorate. At some point it becomes difficult to hire and pay enough police to contain unrest if urban poor are continually subjected to a worsening economic situation while those in powerful positions are so obviously wealthy.

If reform is avoided now, there will be another period of prosperity for those with preferential access to oil receipts as the new production areas come on line. However, this strategy merely perpetuates the pattern of mortgaging oil production to pay off debt, a pattern which can only continue as long as oil production growth continues to outpace the growth of foreign debt and the cost of servicing it.

This point is extremely important; foreign debt, if it is never paid down (as has been the case to date) never stops growing. Oil production growth does. While the outlook in 1997 may appear favorable due to the imminent opening of new production, there is no reason to believe that current growth rates in output can be maintained forever. If, in fact, oil production growth cannot be maintained forever, then the day will inevitably come when oil output must once again be dedicated in its entirety to service foreign debt, as would have been the case in a very few years if the new oil fields had not been discovered.

Angola is not a unique case. Exactly the same problem has plagued other oil exporting countries as they have struggled to cope with the consequences of huge oil financed inflows of foreign exchange. Nigeria is perhaps the closest parallel case, given the fact that it, too, was a relatively low income sub Saharan African country which produced large agricultural surplusses for export and which also suffered a destructive civil war. Nigeria also ran up huge foreign debts in the

process of fighting the civil war and pumping out its oil windfall, and like Angola, suffered from massive overvaluation, inflation, and distortion of the domestic economy. The lesson is clear: Those elites which profited from the situation in the short run are worse off now than they would be had they been able to pursue reforms early in the process.

It is useful to emphasize that every single country which has enjoyed an oil windfall has suffered from these problems to some degree. Angola is in fact a more extreme case due to the higher degree of oil dependence as compared to other countries. Even Saudi Arabia, where oil discoveries were so huge relative to the economy and the population that it seemed that they were inexhaustible, is now facing the fact that oil production growth cannot remain higher than expenditure growth forever, and that even in this case, adjustments are needed at some point. The key is that it is clear that adjustments taken early are far less painful and have far greater potential to result in a greater level of welfare in general than would be the case if they are delayed.

One fortunate aspect of the political economy of reform is that there are very few adverse implications for poverty or other social dimensions. The benefits from the current situation are concentrated in a relatively few hands, so removal of them will not affect the vast majority of the population in the short term. In effect, they are already living at parallel market prices and so liberalization will not make their situation any worse than it already is. In the long run, an adjustment and liberalization program has substantial potential to improve the situation of these segments of society, as they can take advantage of growth in such trade exposed sectors as agriculture.

C. Macro Strategy and Political Economy in the Long Run

Over the long run, there are two important areas of potential problems in achieving a national consensus on a macro strategy for growth and development. The first is the issue of mineral rents from oil, diamonds and other sources, and the decision as to how and when to spend the income.

The second is the difference in economic interests between agricultural regions and urban populations. This last is a common area of debate in many countries both low income and high income (see, for example, the extensive studies summarized in Krueger, Schiff and Valdes), and one which in the Angolan case, is both exacerbated by the nature of the political groupings that currently exist, and closely related to the manner in which the first problem - that of mineral rents - is eventually resolved.

As noted above, Angola possesses oil and mineral wealth in abundance, and currently relies on that income to a far greater degree than is the case in any other country in the world outside of the Persian Gulf. According to the most recent figures, as much as 50% of national income derives from oil alone, and this figure can be expected to remain high even if the non-oil economy is successfully rehabilitated due to the discovery of what are reported to be huge new fields in off-shore areas. At the most general level, there are two main issues involved with this income:

1. How fast to exploit the various mineral resources.
2. How to spend the money.

How Fast to Exploit the Oil

With regard to the first issue, there is an extensive literature on the dangers of excessively rapid exploitation of oil reserves and expenditure of the funds in ways that do not contribute to long run growth and welfare. In particular, Gelb et. al. have shown in numerous case studies, including several directly relevant to the Angolan case, that the distortions which result from large expenditures in the near term can in the end leave a country worse off than it was in the beginning. Given Angola's markedly greater dependence on these revenues than any of the countries whose experience forms the basis for these observations, there is good reason for caution.

Essentially, the issue is this: Large inflows of foreign exchange have the potential to generate

highly undesirable effects on the domestic structure of production and consumption due to the short run incentives to capture the large rents available. However, distortions in the domestic economy can be avoided if the foreign exchange bonanza is spent on imports rather than domestically produced goods and services. In the Angolan case, this is what has for the most part been occurring to date on both the input side of oil production and on the expenditure side once receipts have been received. Even so, a substantial amount of the demand created by the oil windfall has fallen on non-traded goods, particularly in urban areas, where services and housing account for a large share of expenditures by the rich.

On the production side, the offshore nature of Angolan production today, and the original location of much of the production in the physically separate province of Cabinda, have reinforced the oil companies' historical inclination to extract the oil with 100% imported technology operated virtually 100% by expatriate workers, who live in contained facilities with virtually no linkages with the domestic economy. Accordingly, there are no significant effects in terms of 'resource pull' from the rest of the Angolan economy since the oil sector makes almost no use of any domestic capital, labor, or even consumption items for its work force. It is likely that this situation will persist in the future given the fact that Angola continues to contract extraction out to various foreign oil companies which operate their concessions as enclaves. In the case of diamonds, the sector is not physically isolated as is the case for oil (diamonds are located primarily in the northeastern provinces) but the production process provides little opportunity for significant backward linkages to the rest of the economy.

On the expenditure side, all of the oil money has accrued to the central government apparatus, which has spent by far the largest part of its income on imports. During the height of the civil conflict this was largely unavoidable, as large purchases of weapons were needed. In terms of consumption items, the physical barriers to trade between the large coastal urban centers and the rest of the country made it extremely difficult for any of the expenditures to translate into demand for domestic products. Everything from clothes to food to consumer durables has been imported.

While there is some apparent tendency toward the "normal" Dutch Disease pattern of high levels of expenditures on labor services, this is not primarily a product of bloated government wage bills as is the case in some other countries. Though the government labor force is clearly larger than warranted, the vast majority of these functionaries are so underpaid that salaries in fact constitute a relatively small share of the government budget compared to other countries at a comparable level of income. (See above). Insofar as there are greater expenditures on services in urban centers such as Luanda, this has occurred via the personal consumption decisions of those segments of society benefitting from the bulk of the oil revenue. In addition, it is also important to bear in mind the large military establishments maintained by both sides in the civil conflicts of the past years.

What this means in terms of the internal and external balance of the Angolan economy is that the balance of payments has remained severely in deficit while pressures on the real exchange rate have been far less than would be the case if some of the oil funded demand had fallen on domestic production. Even so, it is clear even to a casual empirical observer of the urban economy in Luanda and other cities, that prices are quite high by international standards. Even at black market exchange rates, Luanda is a very expensive city, comparable to large cities in Europe and North America, which is a testament to the high levels of demand resulting from mineral income.

So, if one of the basic problems is the inability of the economy to absorb the large sums of money spent in the short run without detrimental distortions, then one possible solution would be to save some of the money offshore, or to simply pump the oil out at a slower rate. The first option is one that has not been achieved with any great degree of success by any oil exporting country to date. There are simply too many pressures on the government officials both personally and in their official capacities to spend the money when it becomes available. Even so, the government can achieve much the same effect by using revenues to pay off past foreign debt to the extent possible. So far, this has not occurred, both because of political issues surrounding debt repayment and because the government has in fact been dedicating future oil production to servicing current debt obligations to such an extent that most of the revenue has gone to this end.

This is an important reason why the present situation offers some opportunities which have not been possible in the past. Given the large new oil fields coming on line now and in the near future, there is a window of opportunity for the government to use the additional windfall to make the adjustments needed to get out of the vicious circle of mortgaging increasing amounts of current production to future debt service. The alternative is to spend the money now and continue the pattern of the past, but at a higher level of debt.

How to Spend the Mineral Revenues

The basic problem of oil economies, that of a highly overvalued exchange rate, has the effect of imposing high implicit costs on those sectors most exposed to international trade, either because they produce export products, or because they face actual or potential import competition. Accordingly, the factors of production employed in these sectors suffer, and to the extent they are able, migrate toward uses in which they can earn greater rewards, in this case the urban centers where oil money is received and spent.

In the Angolan case, it is clear that the hardest hit sector is agriculture, together with associated processing and transforming industries. Angola has historically demonstrated a strong comparative advantage in agriculture (see above) and this sector provides employment and income for the majority of the population. Therefore, from a the point of view of both poverty and equity, there is a powerful case to be make to avoid overvaluation to the extent possible to avoid penalizing this sector.

Even if exchange rate overvaluation persists to some degree, the strong underlying comparative advantage in agriculture suggests a government investment strategy directed toward provision of infrastructure and public goods which can help lower costs of production in this sector. Obvious candidates are rehabilitation of the country's transportation system, including roads, ports and railroads, as well as investments in agricultural research and extension. All of this is, of course, predicated on a successful continuation of the peace process and resettlement of rural populations

in producing areas. In addition, lack of public services such as water and sanitation, as well as electricity and other utilities are a serious constraint to industrial investment and rehabilitation.

It is precisely in the area of how and where to spend the oil revenues that political considerations tend to be important in any country, and particularly so in Angola. The political divide that has led the country to the present state of devastation pits the largely urban and coastal base of the MPLA against the largely rural and agricultural base of the UNITA forces which have their core of support in the agricultural breadbasket of the central highlands. This means that issues of urban-rural balance and investment in agriculture vis a vis other sectors are immediately and automatically a bone of contention between the two sides in this long running political and military conflict.

While it is unclear to what extent either side is prepared to embark on a program of adjustment and investment designed to protect and promote non-mineral traded sectors, it is clear that even if there were no mineral revenue at all, there would remain a natural tension between urban and agricultural interests. This arises naturally from the fact that what the one sector produces - food and fiber - the other consumes, thus creating natural constituencies for both overvaluing and undervaluing the national currency. This natural tension, seen in currently developed countries at various points in their history can, if tipped too far to one side, result in strangulation and stagnation of parts of the economy. The Angolan problem is exacerbated by the extreme urban bias created by the concentration of oil money in the capital.

In summary, the experience of other oil countries, and the theoretical literature on Dutch Disease effects, show that the distortions induced, particularly via the exchange rate, create very adverse conditions for other sectors. As noted above, in the Angolan case agriculture is the most important of these, both in terms of its share of the labor force and due to the well demonstrated comparative advantage enjoyed by the country. There are also a wide range of light manufacturing activities which would be rapidly developed by the private sector given appropriate conditions. Accordingly, some clear long term policy prescriptions emerge from this analysis:

1. Maintenance of an appropriately valued exchange rate is paramount. As argued above, this will depend to a great extent on the ability to control inflation which in turn depends on fiscal control.
2. Free access to foreign exchange and ease of international trade (i.e. elimination of bureaucratic barriers).
3. A program of investment in public goods necessary to the agricultural sector and rehabilitation of manufacturing.

All of these conditions are important to maintain incentives for foreign investment, which will itself help speed the process of rehabilitation of the economy and achieving a sustained growth in non-oil output. However, the most important factor, indeed a prerequisite, for reactivating foreign investment even given the most liberal law possible, is the level of confidence in the government and the credibility of its policies in terms of maintaining a stable and favorable environment for business.

The stop-go reform and retreats of the past years have not helped create a feeling of confidence - some degree of constancy is imperative if the government is to hope to attract any substantial investment outside of the oil and diamond sectors. At this point, the single most important indicator which will result in the confidence foreign investors require before putting money in the country is, rightly or wrongly, approval of the IMF and the World Bank of the government's policy package. While the government may not in fact need the approval of these organizations to succeed in developing Angola, it is a fact of life at the present time that many potential foreign investors look to them for indications that a country is safe to invest in. Accordingly, it would be desirable to attempt to achieve a policy package which can satisfy basic requirements of these organizations without sacrificing the legitimate goals and aspirations of the Angolan government and people.

Finally, it needs to be recognized that all of the discussion about Angola's future depends on the assumption that peace can be maintained and that the process of political reconciliation

continues. Without this, and without a continuation of the mine clearance and resettlement which began after the signing of the Lusaka Accords, there is little basis for any progress.

Part II

Foreign Investment Issues

A. Angolan Government Attitudes and Actions

The rhetoric of the GOA has radically changed over the last ten years. The previous emphasis on a planned and tightly controlled socialist economy has been replaced by one giving emphasis to an open market oriented economy of a capitalist nature. Key documents in this regard are "The Economic and Social Policy Program of Government for 1997" and the "Directed Plan of Reindustrialization of Angola". Both documents give emphasis to the lead role to be played by the private sector, through both domestic and foreign investment, in accelerating economic growth. It is made clear, however, that the transition to a market economy will be one carefully controlled by the State. (page 7 of the "Program") Therein lies a dilemma.

A market based, private sector led strategy for economic development does need rules and regulations which might be loosely defined as "control". Such things as enforcement of contracts, public safety, a sound banking system, an independent judiciary, administrative support, stiff sanctions against corrupt practices, etc. are important supports to successful private sector production.

However, the type and degree of control being exercised by the GOA has the effect of strangling such operations and preventing Angola from becoming an attractive site for foreign investors, outside the special environments in which the oil and diamond companies work. This type of control is more in line with the centrally planned socialist economy which Angola has abandoned. Unless this apparatus is redirected to support the private sector, instead of tightly controlling and, in effect, suppressing it, results are not likely to come close to reaching the development potential of the country.

Foreign investors, except those in enclave environments or given a "special status", will be reluctant to provide risk capital unless the administrative impediments are greatly reduced and appropriate economic policies are put in place. These reforms are also likely to increase domestic investment in productive areas of the economy and away from speculative activities and trade.

Discussions in Angola lead to the conclusion that key decisionmakers agree, in principle, that such actions need to take place, the question being in what sequence and over what period of transition. In this regard there is expressed interest on the part of the Minister of Planning to set up an office to provide a "one stop shop" to facilitate investors, whether domestic or foreign, in meeting the many administrative requirements in establishing and starting up business operations. A request has been made to the World Bank to assist in doing this. In addition, the Minister has requested assistance in modifying the present Foreign Investment Law and preparing a new one.

We view these requests as positive steps on the part of the Angolan Government to deal with the difficult structural problems facing the economy as it moves from a wartime to peacetime setting.

B. Impediments

This part discusses some of the principal impediments to private sector investment and growth, whether domestic or foreign investors, as expressed by a sample of private sector contacts in Angola, the United States and Portugal. These opinions are given credence by a review of relevant laws, decrees, administrative procedures, discussions with Angolan Government officials, and experience in dealing with cumbersome administrative processes in obtaining visas and changing currency.

Impediments for private sector investment, again outside the oil and diamond sectors and certain trade activities, are many. Essentially, however, they fall under three broad areas;

infrastructure, macro-economic policy, and public administration.

1. Infrastructure - Because of the loss of trained personnel at the end of the colonial period and the almost constant civil war since, until the Lusaka peace agreement in 1994, the country's infrastructure has suffered severely. Road systems, power generation and distribution, telecommunications, ports and airports, water systems, and health and education systems have all been affected.

Although the state of infrastructure is a large hurdle, and will delay certain types of investment, it can represent opportunities for those companies that can provide technology, capital, and management to participate in rebuilding the country. Furthermore, there is demonstrated interest in doing so on the part of Portuguese, American, and Brazilian companies as well as others.

An example of this interest is a project being planned by an Angolan company, with participation of American and Portuguese firms, in rebuilding important rail and road links to productive areas of the interior. The investment mode being considered is Build-Operate-Transfer (BOT), whereby the partners arrange the financing, build the facility, operate it for a set period, and turn it back to the Government after the concession period ends, typically after twenty or more years.

In addition, there is also demonstrated interest in the agricultural and industrial sectors, even with the current infrastructure problems, in those areas which are accessible and where the security situation has been brought under control.

The main impediments to investments for these type of activities are the policy framework, especially the macroeconomic policy, and administrative bottlenecks. As indicated above, the macroeconomic impediments are described and analyzed in a separate section of this report. The following part concentrates on the problems of administration.

2. Public Administration - The Foreign Investment Law (FIL) and its implementing regulations are administered by the Foreign Investment Institute (hereafter called either the Institute or its Portuguese acronym IIE). The Law creates cumbersome requirements and forces foreign companies to jump through a series of hoops which may discourage them from investing in Angola. In any case, it causes them to spend too much time and funds meeting the requirements instead of directing their efforts at more substantive business activities. Likewise, it makes the IIE less effective than it could otherwise be if its mission were to promote and facilitate investment.

Because a detailed analysis of the FIL is made in another section of the report, this section discusses the functions of other administrative units of the public sector and how some of their rules, regulations and operating mechanisms makes doing business in Angola difficult, whether foreign or domestic investors. Among the most important impediments to business are the following.

(a) Employment of Foreigners - The regulations on foreign employees is pursuant to a number of laws and decrees. Approval is required of a number of administrative units of the Government before an Angolan consulate can issue a work visa. Such visas can be given for up to one year, with annual renewals to the end of the contract period. Renewals are not automatic and the employee must leave the country to obtain the renewal.

A number of parties in Angola with practical experience in how the law and decrees are administered were interviewed. The conclusion drawn is that the process normally takes at least six months and can be stopped or delayed at several approval points. In addition to other requirements, there is a new requirement that the applicant receive a medical certificate indicating that he/she does not have the HIV virus.

In view of the need, and expressed interest of Angola in attracting technology and management know-how, the current laws and decrees affecting foreign employment makes the task more difficult than it need be.

(b) Foreign Exchange Control - The rules and regulations regarding access to foreign exchange are complex and subject to fairly frequent change. Because of the overvaluation of the national currency - the kwanza - foreign exchange must be carefully rationed as demand has far exceeded supply at current exchange rates. This has resulted in a number of impediments for business operations, with the exception of the separately handled oil and diamond sectors.

Imports of capital equipment and inputs are subject to licensing by the Ministry of Commerce. Once the paperwork is completed for acquiring the license, the National Bank of Angola (BNA in Portuguese)- the central bank - must approve the release of foreign exchange so the customer's commercial bank can open a letter of credit to the seller of the goods abroad. Although a few of the newly established foreign banks offer lines of credit from their parent banks abroad, the consensus of opinion is that foreign exchange rationing and the preference given to para estatal companies, including trading companies that import consumer items, results in long delays in receiving goods from abroad with adverse effects on business operations. If a piece of equipment needs to be replaced, the delays may mean a temporary shutdown in the business.

This situation also provides an incentive to those dealing in smuggled goods which is a normal consequence of overvalued exchange rates, especially in cases, like Angola's, where land borders and sea coasts are long.

Although the law is fairly liberal on profit remittances and royalties, they may be delayed while the central bank rationing process takes place. Furthermore, exporters are not allowed any retention of foreign exchange earnings. They must be turned over to the central bank and the exporter must follow the normal procedures, described above, to acquire foreign exchange for legitimate business needs.

(c) Customs Clearance - Our interviews revealed that when goods arrive in port the customs clearance process and procedures are such that the goods are only released after a long delay. Such delays are the result of administrative functions and not the corresponding regulations and may

require non-published payments.

(d) Limitations on Private Investment - The Law of Economic Activity sets out, among other things, areas that are reserved exclusively for the state. One of these areas - fundamental services in telecommunications - is likely to result in the lack of a modern telecommunications system. Technology is rapidly changing in this area and other developing countries are modernizing very quickly. Angola cannot afford to continue with an antiquated, high cost, and inefficient system.

The Law also restricts investments in other areas, such as regularly scheduled domestic and international air transport, which require that the state, through public entities, maintain majority control in any joint venture investment with private companies. The Law also lists nine areas of the economy which are open to private sector investment pursuant to contracts providing temporary concessions.

The restrictiveness of this Law is not compatible with a private sector led growth strategy which seeks a diffusion of modern technology and increased levels of foreign investment in non-oil areas of the economy.

(e) Labor Law - The labor law in effect is from 1981 and states quite clearly that it is meant to advance socialist principles. As in many such laws in some European countries and the developing world it makes it quite difficult to lay off workers once the 60 day probation period has ended and to do so there must be the approval of the labor union. It also provides for vacation periods of thirty days a year and lists nine activities in which a worker can participate - such as attending congresses, conferences, etc., participation in sporting or cultural events, marriage - and receive pay for those days not worked. Considering the high unemployment levels in the country and the number of workers in the informal sector where there is no protection, the labor law appears much too protective and may discourage private investment in the formal sector.

(f) Law of Crimes Against the Economy - This law lists a number of economic crimes which carry,

not only fines, but prison sentences for up to eight years for such activities as revealing economic secrets and engaging in speculation, among others. Many of the crimes are quite subjective; an example of one is to take advantage of market scarcity to obtain a disproportionate profit. It is also a crime to charge margins higher than those legally fixed. Corporate counsels for foreign firms considering an investment in Angola are likely to want exemptions from many portions of this law before exposing their staff to the risk of going to prison for activities that are normal in a market economy. Indeed, the need for such a law is that market mechanisms are suppressed and replaced by a system of tight controls.

(g) Foreign Investment Approval Process; Contractual Regime - One area of foreign investment approval which deserves special mention relates to the "contractual regime" set out in the F.I.L. If a proposed investment is to exceed US\$50 million or if it is considered of special interest to the economy, it must pass through to the Minister of Planning who will name a negotiating commission. Once the work of the commission is complete it then passes to the Council of Ministers for approval. This system allows for a great deal of latitude in what is negotiated and is not at all transparent. There has been at least one case of a foreign company being told what Angolan partners it must have in its venture and the amount of equity it must provide to the partners. This procedure is a disincentive to foreign investment.

Finally, it must be noted that perhaps the most important impediment to foreign investment is the rampant corruption affecting virtually all levels of government. Even in cases where bureaucratic requirements are minimal, the fact that even minor requirements necessitate administrative approval can be used as a lever to extract monetary or other considerations as a condition of proceeding. Dealing with this problem is the most important single issue confronting the government, and can go far toward improving the climate for foreign investment.

C. Recommended Actions

1. Rewrite or eliminate the F.I.L.- We conclude that the Foreign Investment Law and its

implementing regulations need to be rewritten or eliminated altogether. The recommended actions in this section are focused on what needs to be done to make the Foreign Investment Institute a more effective organization in carrying out its functions and attaining its objectives. In this regard it also offers suggestions for needed changes in the administrative regulations and operations of other entities that affect such investment and over which the Institute has no control. Specific impediments relating to these entities were discussed above.

No attempt is made in this initial review to draft legislation or implementing regulations. If such work is done in the future it should only be in consort with Angolan officials and in close consultation with the Director and key technical staff of the Institute. Instead, efforts are directed toward recommending a philosophical basis and, related to that, the main functions which the Institute should perform if Angola is to be successful in attracting, not only foreign investment, (in addition to oil and diamonds) but domestic investment as well, whether as joint venture partners of foreign companies or acting by themselves.

The basis for a restructured IIE is that its mission be the promotion of foreign investment and the facilitation of private investment, whether foreign, domestic, or mixed. To do this it needs a law and operating procedures that eliminates, or greatly diminishes, its control functions so its efforts can be concentrated on its mission.

A second option to be considered is to eliminate the Foreign Investment Law entirely with both foreign and domestic private investors given equal treatment under the various laws and administrative procedures in effect in Angola. That is not to say that some of the latter should not be changed. Indeed, they should. Technical assistance might be oriented to this task rather than a new foreign investment law.

2. Promotion - As stated above, the IIE's mission should be the promotion of foreign investment and facilitation of all private investment in Angola. The elimination of its control function, such as reviewing feasibility studies and channeling proposals to different levels of government review,

would allow its staff to shift direction.

In its promotion function the Institute should consider a number of options and decide what combination of promotional activities are likely to be the most effective and how much they should cost to maximize the return on promotional efforts. This would require a program budget where costs are attributed to different promotional programs which would be altered depending on results achieved.

It seems clear that the current situation in Angola is such that expensive brochures with mass distribution or television commercials to advertise the country would be a waste of resources. Instead of such a "shot gun" approach, a more logical option would be a more directed effort utilizing foreign resources that are already in place, or can be put in place at minimum cost, to promote Angola as a logical site for a targeted group of companies.

Resources that come to mind are the US-Angolan Chamber of Commerce in Washington and the Portuguese-Angolan Chamber of Commerce and the Luso-American Development Foundation (FLAD in Portuguese) in Lisbon. These organizations already have a presence in Luanda; each of the chambers has a representative office and FLAD has a representative and a registered NGO that implements the CEIGIA project; the principal functions of the latter are management training for Angolans and trade and investment promotion.

Could the functions of these organizations be expanded or tailored to more closely collaborate with the Institute? What would be the budget implications and the source of funds for such an expansion? Could the Chambers and FLAD establish closer linkages to better promote Angola as part of the much discussed "trilateral relationship"? As an alternative would the establishment of an IIE representative office in Washington, New York and/or Lisbon to work with these and other resources be more productive?

We make no attempt to offer recommendations at this early stage of review but additional

analysis, under the leadership of the IIE and including the above mentioned organizations and others to be identified, appears warranted.

What should be kept clearly in mind in any promotion program is the informal communication system among those foreign companies already doing, or trying to do, business in Angola. Their experiences are communicated back to other companies and this serves to either advance, delay or dismiss Angola as a potentially attractive investment site.

Angola, along with other countries in the region, are competing for foreign investment as a way to accelerate economic growth and bring other benefits to their societies. Many countries, including some in Africa, currently have a more attractive setting in terms of infrastructure, trained manpower, security, and macroeconomic policy. They are also doing more to facilitate such investment than is Angola. To meet such competition, and to attract a greater portion of non-oil FDI, the country needs an effective promotion program as one of the key steps.

3. Facilitation - Promotion without a conscious effort to facilitate foreign investment would likely have limited returns. There is a critical need to facilitate the entry of potential investors who make the decision to take a serious look at Angola as well as to facilitate the operations of those who decide to invest, whether foreign or domestic. What type of treatment a company gets "on the ground" when it actually comes to Angola, will be communicated to other companies, either directly or through business organizations such as the ones discussed above.

If the perception of treatment and conditions in Angola is negative, and if this opinion is shared by even a few foreign companies, then promotion will fall on deaf ears and funds for it will likely be wasted. Even though oil and diamond companies may make attractive profits, their experiences will be discounted by those potential investors who will have to operate inside the every day Angolan environment and not in off-shore or isolated surroundings.

To facilitate foreign investment two major administrative reforms should be carefully

considered. First, the foreign investment approval process needs to be simplified including the elimination of a multi-level approval system and review of feasibility studies; and, second, administrative regulations need to be simplified and made transparent for those companies, both foreign and domestic investors, who are engaged in lawful productive activities in Angola.

Among the major administrative areas needing reform are those mentioned under "Impediments" above - immigration policy for foreign employees, the labor law, foreign exchange control, customs clearance for imported goods, restrictions on private investment in certain economic sectors, export regulations, certain crimes against the economy, among others.

An important function that can be served by a restructured IIE is to act as a "one stop shop" for private sector investors. Documentation required for the various administrative requirements would be submitted to the IIE, which would have the responsibility for obtaining the necessary approvals and clearances or, in some cases, be given delegation of authority to provide the approval or clearance itself, or through a representative of the principal administrative unit who would be assigned to the Institute and who would be provided office space there. As administrative requirements are simplified the amount of time required by the Institute's personnel on such matters would be reduced and efforts spent on more substantive activities.

An option that might be considered in establishing a restructured Institute is to change the name of the IIE to "Private Investment Institute of Angola" and divide it into two units, a "Foreign Investment Promotion Unit" and an "Investment Facilitation Unit". The latter would act as the one stop shop for any private investment dealing with the bureaucracy. Such an organization would probably best be located in the Ministry of Planning or the Prime Minister's office.

In addition to simplification, certain administrative controls and requirements could be replaced by a series of incentives for companies in performing activities that the Government deems important for economic and social reasons. For example, to stimulate exports in the non-oil and non-diamond sectors of the economy, exporters could be given the right to retain a certain percentage of

their export proceeds in foreign exchange accounts at their banks. Access to this foreign exchange would be pre-authorized, without every transaction being approved by the central bank, for eligible activities such as imports of capital goods, production inputs, and remittance of profits or payment of royalties after taxes are paid.

If investments in agriculture or agro-industries are top priorities, tax holidays could be given for a certain number of years and/or duties could be eliminated for the import of production equipment and spare parts.

Finally, income tax reductions could be given for enterprises employing a certain number of Angolan citizens with additional incentives offered as numbers of Angolan employees increase, especially in management or technical positions.

All such incentives could be combined in a new "Economy Revitalization Incentives Law" so that transparency is assured and all investors know "the rules of the game". This would replace case-by-case incentives which are negotiated as part of the contractual regime portion of the current FIL.

We are not in a position, after only a short visit to Angola, to make specific recommendations, but to point out various options to be explored in more detail.

4. Privatization - Angola is implementing a privatization program but, to our knowledge, no large state enterprises have as yet been affected. Two industries of vital importance to private sector led growth are telecommunications and air transport. Both of the state run systems provide poor service, although the state company operating the phone system makes an attractive return due to its monopoly status and ability to charge exorbitant rates on international calls. The status of these companies should be reviewed and decisions made to privatize them and open such activities to competition.

Two other areas that should be reviewed are banking and trade. In both areas para-statals are dominant to the extent that much of the credit offered by state owned banks is channeled to state owned trading and other state owned firms which have poor repayment records. This situation creates two negative effects; the state banks have become decapitalized and the private sector has been crowded out of the formal credit market.

5. Strategic Plan - Currently the Angolan Government establishes yearly priorities in conjunction with the preparation of the national budget. It is recognized that a longer term analysis is needed which establishes specified objectives and alternative policies and actions which will act in a consistent manner to attain such objectives and which is linked to the budget preparation process. The Ministry of Planning intends to establish a special bureau to perform these tasks.

F. Proposed Next Steps for Assistance to IIE

Based on the field work done in Angola, we foresee two separate, but coordinated, paths to follow. On one hand HIID is being asked by the Minister of Planning to submit, in conjunction with this report, a proposal to provide assistance in structuring and advising the economic studies unit discussed above. At the same time, the Director of the IIE has asked that HIID provide, also as part of this report, recommendations to establish the bases for a new foreign investment law and its regulations. Finally, the Minister of Planning has asked for comments on the Regulations for the new Foreign Exchange Law.

With the submission of these proposals and recommendations, the next steps would depend on the reaction of the Angolan authorities and USAID on the actions that are recommended. One issue in this regard is whether any further effort should take place before an IMF agreement has been reached. This is a decision that USAID must make.

If the clients ask that services be provided to assist in the restructuring of the IIE and legislation related thereto, then a legal advisor, a private sector development advisor, and a

banking/financial advisor would spend two to three weeks in Angola to work with the IIE and the Ministry of Plan. Further assistance to the IIE would need to be defined but there are a number of possibilities: put substance into the much discussed tri-lateral relationship; plan a series of workshops and initial agenda items to initiate the private sector - public sector dialogue; serve as a link between the IIE and the US-Angolan Chamber for the trade and investment mission planned to Angola in the Fall including support services in Angola during the mission and follow-up after it takes place; and provide advice on documents to be prepared to restructure the IIE and on reducing the administrative burdens on private investors required by other laws and decrees.

List of Contacts and Interviews

- * Murl Baker, Angola Desk Officer, USAID, Washington D.C.
- * Maria Joseia Bastos dos Santos, Assistant, Economic and Commercial Affairs, U.S. Emabassy, Luanda
- * A. Galvao Branco, Angolan Representative, United States - Angola Chamber of Commerce, Luanda
- * Charles A. Buchanan, Administrator, Luso - American Development Foundation, Lisbon
- * Manuel Branco, Minister of Plan, Government of Angola, Luanda
- * Edmund DeJarnette, Executive Director, United States - Angola Chamber of Commerce, Washington D.C.
- *Maureen Dugan, Deputy Director, Southern African Affairs, USAID Washington
- * Manuel Duque, Minister of Industry, Government of Angola, Luanda
- * Agostinho Fernandes, Commercial Attache, Embassy of Angola, Washington D.C.
- * Sr. Ferreira, Instituto de Investimento Estrangeiro (legal counsel)
- * Manuela Ferro, World Bank, Washington D.C.
- * Antonio Franco, Economist, Angola Desk, the World Bank, Washington D.C.

* Helena Grandao Ramos, World Bank Resident Mission, Luanda

* Donald Harrison, Economist, USAID, Washington D.C.

* Antonio Henriques da Silva, Director, Foreign Investment Institute, Government of Angola, Luanda

* Nicholas Jenks, Director, USAID Mission, Luanda

* Barbara Kafka, World Bank, Washington, D.C.

* Edward S. Kane, Senior Associate, African Studies Program, Center for Strategic and International Studies, Washington D.C.

* Fred King, World Bank, Washington

* Arnaldo Lago de Carvalho, Luanda

* Clotilde Mariano, Banco Nacional de Angola

* Sr. Dionisio Mendonca, Banco de Poupanca e Credito

* Mario Dulio Negrao, Director, GESTRES, International Business Development Unit, Lisboa

* Mario Pizarro, Banco Espiritu Santo, Luanda

* Fred Ribe, International Monetary Fund, Washington

* Ernani Rodrigues Lopes, President, GESTRES, Lisbon

- * Antonio dos Santos, President, Chamber of Commerce and Industry of Angola, Luanda
- * Liliana de Sousa, Assistant Vice President, Equator Bank Limited, Luanda
- * Ambassador Steinberg, U.S. Ambassador to Angola, US Embassy, Luanda
- * Carlos Vargas Mogo, Director, GESTRES, International Business Development Unit, Lisbon

Table 1. Angola: National Accounts, Shares of GDP (in percentage of current price GDP)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
GDP at market price	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Net indirect taxes	2.7	3.0	4.6	4.0	5.2	2.6	4.4	2.7	5.8	-3.7	1.0
GDP at factor costs	97.3	97.0	95.4	96.0	94.8	97.4	95.6	97.3	94.2	103.7	99.0
Agriculture	13.5	14.4	12.9	15.9	19.1	17.9	24.8	19.1	19.7	11.9	16.5
Industry	43.3	34.1	41.3	39.4	39.0	40.8	28.7	41.1	41.9	56.1	52.8
of which: oil	28.1	17.8	27.3	24.9	27.4	30.9	18.2	32.7	35.2	50.0	48.0
manufacturing	9.7	10.9	7.3	8.2	6.1	5.0	5.9	3.9	4.6	3.4	2.1
Services	40.5	48.5	41.3	40.7	36.6	38.6	42.1	37.1	32.6	35.7	29.6
Resource balance	10.4	0.7	11.5	10.9	14.7	18.0	13.1	13.7	15.5	18.2	19.8
Exports (GNFS) ¹	35.7	23.0	32.7	33.0	33.9	38.9	30.6	45.7	47.7	66.1	60.9
Imports (GNFS)	25.3	22.3	21.2	22.1	19.2	20.9	17.5	32.0	32.2	48.0	41.2
Total expenditures	89.6	99.3	88.5	89.1	85.3	82.0	86.9	86.3	84.5	81.8	80.2
Consumption	71.7	80.9	70.0	74.5	73.1	70.3	71.9	71.8	70.0	67.7	66.2
Government	32.4	33.9	27.9	31.5	28.6	34.5	29.0	47.1	32.9	33.9	37.0
Private	39.3	47.0	42.1	43.0	44.5	35.8	42.9	24.7	37.0	33.8	29.2
Gross domestic investment	18.0	18.4	18.5	14.6	12.2	11.7	15.0	14.5	14.5	14.2	14.0
Government	4.6	5.5	5.5	6.9	9.6	9.5	4.2	4.0	5.5	3.0	4.0
Private	12.7	12.2	11.9	7.7	1.7	1.7	10.6	10.2	8.9	11.1	10.0
Changes in stocks	0.7	0.7	1.1	0.0	0.9	0.6	0.2	0.4	0.1	0.0	0.0
Domestic savings	28.3	19.1	30.0	25.5	26.9	29.7	28.1	28.2	30.0	32.3	33.8
Net factor income	-7.8	-7.7	-6.2	-16.8	-16.2	-19.6	-18.4	-24.2	-29.5	-40.3	-32.5
Net current transfers	0.3	2.2	0.7	0.4	0.0	-0.8	0.2	1.2	2.6	3.6	3.9
National savings	20.8	13.6	24.5	9.0	10.7	9.4	10.0	5.1	3.1	-4.4	5.2
GNP	92.2	92.3	93.8	83.2	83.8	80.4	81.6	75.8	70.5	59.7	67.5
Gross National Disposable Income	92.5	94.5	94.5	83.6	83.8	79.7	81.9	76.9	73.1	63.3	71.4

¹ "GNFS" denotes "goods and nonfactor services."

Source: Angolan Government, and World Bank staff estimates

Table 2. Angola: National Accounts, Annual Growth Rates (in percentage of constant price GDP)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
GDP at market price	--	2.8	7.9	5.6	0.4	-0.3	0.8	1.5	-24.4	7.7	12.5
Agriculture	--	-1.4	3.0	-2.8	3.8	-0.3	4.8	11.0	-28.0	12.0	15.1
Industry	--	-4.2	19.5	12.3	-0.7	-0.8	-0.1	9.1	-14.3	9.3	13.7
of which: oil	--	4.1	37.9	19.7	4.3	3.2	4.2	10.8	-8.4	9.1	14.3
manufacturing	--	-4.5	-25.4	11.2	-17.9	-16.5	-19.8	-5.0	-19.5	-8.8	3.0
Services	--	9.3	-3.1	1.6	-1.4	-3.3	1.5	-1.4	-37.7	24.1	2.1
Resource balance	--	-659.1	53.7	76.0	-4.0	-21.0	31.9	-35.0	26.4	24.6	22.8
Exports (GNFS) ¹	--	10.4	21.1	27.0	0.4	3.0	8.5	6.3	-12.1	8.2	13.0
Imports (GNFS)	--	-24.4	8.6	0.3	4.7	23.9	-4.5	38.1	-26.1	-2.0	5.2
Total expenditures	--	-6.9	3.8	-3.6	1.5	4.4	-4.5	10.0	-31.5	3.3	9.3
Consumption	--	-4.7	1.3	2.0	3.2	3.8	-6.6	9.5	-33.2	2.3	9.2
Government	--	-2.2	-4.5	7.6	0.2	16.0	-6.2	71.7	-48.2	-3.1	38.4
Private	--	-6.5	5.5	-1.7	5.3	-4.6	-6.9	-42.9	4.9	9.0	-23.3
Gross domestic investment	--	-15.1	14.8	-24.6	-7.1	7.7	6.7	12.5	-23.4	7.7	9.7
Government	--	10.3	12.4	5.0	3.5	-21.2	-47.3	-5.1	0.8	-38.9	67.9
Private	--	-21.8	10.1	-29.0	-31.4	37.6	52.0	16.3	-31.1	19.7	2.9
Domestic savings	--	-40.3	79.3	-14.4	22.2	24.0	-7.9	-9.7	-20.8	-2.3	22.5
Net factor income	--	-1.0	-6.8	193.4	11.8	33.8	8.3	-5.9	-11.5	2.4	2.5
Net current transfers	--	571.4	-63.1	-38.4	-114.0	1612.2	-136.5	263.9	62.3	1.8	39.1
National savings	--	-44.4	104.2	-67.6	38.6	-2.9	-36.3	-10.7	-44.1	-33.5	261.4
GNP	--	3.1	9.0	-6.8	-1.9	-8.3	-1.8	4.3	-28.8	9.9	16.5
Per capita growth rates:											
GDP	--	0.1	5.1	2.8	-2.2	-3.1	-2.1	-1.4	-26.5	4.7	9.3
GNP	--	0.4	6.2	-9.2	-4.5	-10.9	-4.6	1.3	-30.9	6.8	13.2
Consumption	--	-7.3	-1.3	-0.7	0.4	0.9	-9.2	6.4	-35.1	-0.6	6.1
Investment	--	-17.3	11.8	-26.6	-9.5	4.7	3.7	9.3	-25.6	4.6	6.6

¹ "GNFS" denotes "goods and nonfactor services."

Source: Angolan Government, and World Bank staff estimates

Table 3. Angola: CPI 1993-1996

1993			1994			1995			1996		
Month	Monthly	Year to Date	Monthly	Year to Date	12 mos. cum (eop)*	Monthly	Year to Date	12 mos. cum (eop)*	Monthly	Year to Date	12 mos. cum (eop)*
	Percent		Percent			Percent			Percent		
Jan.	30.42	30	25.33	25	1,762	38.60	39	1,085	36.00	36	3,710
Feb.	20.26	57	11.94	40	1,633	32.42	84	1,302	22.50	66	3,425
Mar.	16.43	83	14.47	61	1,604	28.91	137	1,479	34.93	125	3,589
April	23.85	126	16.90	88	1,508	16.76	176	1,477	51.86	241	4,699
May	37.85	212	12.80	112	1,205	14.71	215	1,510	84.09	528	7,639
June	26.51	294	6.93	125	1,003	16.50	267	1,654	61.81	917	10,649
July	23.04	385	16.70	162	946	22.28	349	1,738	38.05	1,304	12,035
Aug.	40.61	582	23.00	222	815	43.29	544	2,041	9.50	1,436	9,169
Sept.	21.24	727	23.41	298	832	52.71	883	2,549	5.04	1,514	6,277
Oct.	30.68	981	28.35	411	815	30.41	1,182	2,591	2.10	1,548	4,892
Nov.	38.96	1,402	32.55	577	773	82.00	2,233	3,596	.67	1,559	2,661
Dec.	28.98	1,838	58.40	972	972	66.00	3,783	3,783	5.49	1,650	1,650

* End of period

Source: Instituto Nacional de Estatística/Gab. Estudos-Min. das Finanças

Table 4. Angola: Exchange Rate of Kwanza Reajustado/\$US

		1996			1997		
Month		Official Market	Parallel Market	Spread	Official Market	Parallel Market	Spread
January	Average End of Period	5,692.00 5,692.00	32,722.58 38,500.00	475% 576%	201,994.00 201,994.00	266,451.61 260,000.00	32% 29%
February	Average End of Period	7,469.76 31,469.50	43,466.38 45,562.50	482% 45%			
March	Average End of Period	37,040.18 37,999.50	53,862.90 62,000.00	45% 63%			
April	Average End of Period	45,506.90 46,806.00	75,395.83 80,000.00	66% 71%			
May	Average End of Period	70,565.50 106,000.00	180,306.45 240,000.00	156% 126%			
June	Average End of Period	155,847.40 161,386.00	239,250.00 215,000.00	54% 33%			
July	Average End of Period	201,994.00 201,994.00	246,129.03 225,000.00	22% 11%			
August	Average End of Period	201,994.00 201,994.00	206,612.90 210,000.00	2% 4%			
September	Average End of Period	201,994.00 201,994.00	206,000.00 220,000.00	2% 9%			
October	Average End of Period	201,994.00 201,994.00	225,000.00 230,000.00	11% 14%			
November	Average End of Period	201,994.00 201,994.00	230,333.33 232,500.00	14% 15%			
December	Average End of Period	201,994.00 201,994.00	241,451.61 270,000.00	20% 34%			

Source: Banco Nacional de Angola

Table 5. Angola: Public Finance (in millions of US dollars)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Total revenues	2,624	2,381	2,079	2,451	2,478	2,628	2,230	2,057	2,065	1,708	1,848
of which oil revenues	1,394	705	1,100	1,074	1,305	1,639	1,212	1,548	1,683	1,518	1,607
Current revenues	2,624	2,381	2,079	1,727	2,138	2,412	2,230	2,043	2,065	1,708	1,847
Direct taxes	1,502	796	1,066	1,040	1,327	1,697	1,029	1,348	1,370	1,227	1,378
Indirect taxes	383	392	475	476	603	606	771	673	658	454	454
Domestic goods & services	180	199	372	375	508	556	724	384	524	357	344
International trade	70	70	77	77	67	23	23	285	134	74	110
Other	133	123	27	23	28	27	23	4	0	23	0
Non-tax revenues	739	1,193	538	212	208	109	430	22	37	27	15
Capital revenues	0	0	0	723	339	217	1	14	0	0	1
Total expenditures	2,753	2,776	2,679	3,575	4,826	5,382	4,905	5,346	3,210	2,796	3,572
Current expenditures	2,441	2,427	2,276	3,027	3,268	4,411	4,408	5,002	2,865	2,653	3,332
Wages	639	1,484	1,523	1,858	2,035	2,463	2,586	1,304	691	222	356
Goods and services	1,463	615	491	386	500	568	493	566	1,368	1,097	1,719
Transfers	201	201	137	157	117	341	245	435	292	626	394
Interest	39	72	81	356	495	531	738	476	498	429	727
Other	101	54	44	269	121	508	345	2,220	17	279	137
Capital expenditures	312	350	403	548	1,557	971	497	344	345	143	240
Overall balance (commit. basis)	-129	-396	-600	-1,124	-2,348	-2,754	-2,674	-3,288	-1,145	-1,088	-1,724
Change in payment arrears	0	0	0	0	0	0	485	1,220	1,169	570	292
Domestic	0	0	0	0	0	0	-214	892	782	128	0
External interest	0	0	0	0	0	0	698	328	387	441	292
Overall balance (cash basis)	-129	-396	-600	-1,124	-2,348	-2,754	-2,190	-2,069	24	-518	-1,432
Financing	129	396	600	1,124	2,348	2,754	2,190	2,069	24	518	1,432
Domestic financing	299	479	620	809	2,070	2,350	1,991	1,628	437	478	1,338
Banking system	668	2,142	2,328	1,521	1,777	-524	514	2,760	911	1,015	1,055
Non-banking system	-369	-1,663	-1,709	-712	293	2,874	1,477	-1,132	-474	-538	283
Foreign financing	-170	-83	-20	316	278	404	199	441	-461	40	94
Drawings on loans	66	56	54	176	276	321	100	319	0	530	117
Amortization due	-263	-357	-423	-834	-985	-1,195	-1,453	-1,368	-1,304	-1,247	-936
Change in arrears (net)	27	218	149	967	-832	609	1,534	1,465	843	673	732
Debt rescheduling	0	0	200	7	1,818	669	17	25	0	84	181
Grants	0	0	0	0	0	0	0	0	0	0	0

Source: Angolan Government, and World Bank staff estimates

Table 6. Angola: Oil Revenues

1996 - Oil Revenue Summary (estimate)

	in Kzr	in USD
Production tax	78,441,457,057	586,926
Corporate tax	98,177,324,820	780,930
Transaction tax	117,441,653,542	820,408
Total	294,060,435,419	2,188,264

1996 - Oil Revenue by Quarter - in USD

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Production tax	117,004	134,257	143,325	192,341	586,927
Corporate tax	173,384	198,929	178,994	229,624	780,931
Transaction tax	97,496	172,967	189,557	360,388	820,408
Total	387,884	506,153	511,876	782,353	2,188,266

Source: Ministry of Finance / Dept. Regimes Especiais de Tributação (DRET)

Table 7. Angola: Evolution of Government Wages

	1992	1993	1994	1995
Wage bill (US\$ million)	1,304	691	222	356
Monthly wage				
At the official exchange rate	543	209	54	87
At the parallel exchange rate	87	10	26	40

Source: Angolan Government, and World Bank staff estimates

Table 8. Angola: Exports and Imports (in millions of US dollars)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Current prices											
Total merchandise exports	2,301	1,346	2,322	2,520	3,014	3,884	3,449	3,833	2,900	3,002	3,509
Oil	2,150	1,256	2,159	2,289	2,740	3,607	3,238	3,573	2,826	2,896	3,400
Diamonds	74	8	98	183	228	242	190	250	63	96	70
Coffee	55	53	35	18	12	5	4	3	2	0	0
Other	22	29	30	30	34	31	17	7	9	9	39
Total merchandise imports	1,401	1,086	1,303	1,372	1,338	1,578	1,347	1,988	1,463	1,633	1,748
Food	387	246	193	248	242	286	57	244	203	295	325
Other consumer goods	118	74	502	478	467	551	676	1,009	778	712	739
Intermediate goods	541	415	399	443	431	508	345	358	161	299	308
Primary goods	344	219	283	310	303	357	254	223	89	214	214
Manufactured goods	197	196	116	133	128	151	91	135	72	85	94
Capital goods	355	351	209	203	198	233	269	378	322	327	376
Constant 1987 prices											
Total merchandise exports	1,805	1,994	2,415	3,066	3,080	3,171	3,442	3,658	3,216	3,480	3,925
Oil	1,568	1,868	2,252	2,908	2,871	2,955	3,221	3,461	3,156	3,400	3,831
Diamond	86	20	98	117	148	144	111	162	34	60	49
Coffee	40	40	35	19	16	11	10	10	5	0	0
Other	111	66	30	22	45	61	100	24	21	20	46
Total merchandise imports	1,486	1,078	1,303	1,201	1,224	1,528	1,312	2,001	1,465	1,367	1,386
Food	335	201	193	211	227	298	61	278	229	242	249
Other consumer goods	111	70	502	410	419	539	682	1062	807	603	584
Intermediate goods	580	422	399	390	392	484	335	347	154	252	246
Primary goods	325	207	283	266	272	350	256	234	92	181	169
Manufactured goods	255	215	116	124	120	134	79	113	62	70	77
Capital goods	460	385	209	189	186	207	234	315	274	271	306
Memorandum items:											
Export volume growth rate (%)	--	13.9	24.4	26.9	-0.3	4.6	7.1	7.4	-11.7	8.3	12.8
Import volume growth rate (%)	--	-27.4	20.8	-7.8	1.9	24.9	-14.1	52.5	-26.8	-6.7	1.4
Price indices (1987 = 100)											
Merchandise exports price index	140.5	72.1	100.0	85.5	102.5	126.3	104.7	108.4	92.9	88.8	92.0
Merchandise imports price index	94.3	100.7	100.0	114.3	109.3	103.3	102.7	99.3	99.9	119.4	126.1
Merchandise terms of trade	149.0	71.6	100.0	74.8	93.8	122.3	102.0	109.1	93.0	74.4	73.0
Annual percentage change	--	-51.9	39.6	-25.2	25.3	30.4	-16.6	7.0	-14.8	-20.1	-1.8

Source: Angolan Government, and World Bank staff estimates

Table 9. Angola: Balance of Payments (in millions of US dollars)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Total exports of GNFS	2,430	1,462	2,415	2,634	3,144	3,993	3,620	3,976	3,005	3,113	3,644
Merchandise exports	2,301	1,346	2,322	2,520	3,014	3,884	3,449	3,833	2,900	3,002	3,519
Non-factor exports	129	116	93	114	131	109	171	143	105	111	125
Total imports of GNFS	1,724	1,415	1,563	1,765	1,782	2,147	2,071	2,782	2,026	2,258	2,463
Merchandise imports	1,401	1,086	1,303	1,372	1,338	1,578	1,347	1,988	1,463	1,633	1,748
Non-factor imports	323	329	260	393	444	569	724	794	563	625	715
Resource balance	706	47	852	868	1,363	1,845	1,549	1,194	979	855	1,181
Net factor income	-532	-491	-457	-1,342	-1,500	-2,007	-2,173	-2,107	-1,860	-1,896	-1,943
Factor receipts	0	0	0	14	19	11	15	16	12	8	7
Factor payments	-532	-491	-457	-1,356	-1,519	-2,018	-2,188	-2,123	-1,872	-1,904	-1,950
Interest	43	80	90	367	450	456	709	456	444	549	602
Oil sector profit remittances	108	82	135	185	303	314	313	362	379	319	374
Other (chiefly to oil companies)	381	329	232	804	766	1,248	1,165	1,305	1,049	1,036	974
Net private current transfers	-15	2	-8	-7	-68	-142	-32	11	-15	-23	-26
Net official current transfers	36	139	60	39	64	65	60	91	181	192	261
Current account balance	195	-303	447	-442	-142	-239	-596	-811	-715	-872	-527
Official capital grants	0	0	0	0	0	0	0	0	0	0	0
Private investment (net)	278	234	119	131	200	-336	665	288	302	326	329
Net long-term borrowing	176	14	-64	-330	-320	-273	-1,166	-623	-697	-450	-994
Disbursements	439	371	359	504	665	923	286	745	637	737	138
Repayments	-263	-357	-423	-834	-985	-11,195	-1,453	-1,368	-1,334	-1,187	-1,132
Net other long-term inflows	0	0	0	0	0	0	0	0	0	0	0
Scheduled debt service adjustment	27	218	349	974	987	1,278	1,551	1,490	1,472	1,280	859
Debt service not paid	27	218	149	967	-832	609	1,534	1,465	1,455	1,280	1,191
Rescheduling/relief	0	0	200	7	1,818	669	17	25	17	0	-333
Other capita inflows	-655	-204	-833	-284	-731	-468	-405	-194	-554	-298	200
Net short-term capital	0	0	0	0	0	0	0	0	3	0	294
Errors and omissions	-655	-204	-833	-284	-731	-468	-405	-194	-558	-298	-94
Changes in net international reserves (- indicates increase in assets)	-21	41	-18	-49	6	37	-48	-150	193	14	133

Source: Angolan Government, and World Bank staff estimates

Table 10. Angola: External Debt (in millions of \$US)

	1991	1992	1993	1994	1995	1996
	<u>End of Period Values</u>					
Medium and long term debt	7,583.0	8,021.0	8,639.0	9,218.0	10,001.0	10,492.0
Multilateral institutions	45.0	30.0	112.0	145.0	208.0	212.0
Bilateral creditors	7,538.0	7,991.0	8,527.0	9,073.0	9,793.0	10,280.0
of which: Western countries	2,571.0	3,034.0	3,251.0	3,685.0	4,394.0	4,671.0
Eastern countries	4,967.0	4,957.0	5,276.0	5,388.0	5,399.0	5,609.0
Short term debt	--	--	--	--	10.2*	107*
Total external debt					10,013.0	10,599.0
of which: arrears	2,006.7	3,131.4	4,211.0	5,120.1	5,489.0	6,416.7
Multilateral	3.5	7.2	19.0	37.5	62.0	71.7
of which: interest	2.0	2.0	10.0	13.0	19.0	23.0
Bilateral	2,003.2	3,124.2	4,192.0	5,082.6	5,427.0	6,344.4
of which: interest	574.0	766.0	971.0	1,171.0	1,085.0	1,267.0
Western creditors	145.0	209.0	292.0	381.0	297.0	365.0
Eastern creditors	429.0	557.0	679.0	790.0	788.0	902.0
Scheduled debt service for medium/long term	1,372.7	1,144.8	1,022.1	1,059.4	944.3	1,226.7
Amortization	924.4	941.5	821.9	828.2	747.5	917.7
Interest	448.3	203.3	200.2	231.1	196.7	309.0
Debt/GDP					190.5%	172.1%

*Estimate

Source: Banco Nacional de Angola